

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

PA-04 PRS-01 USIA-15 COME-00 FRB-02 XMB-07 DRC-01

/145 W

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R 071105Z DEC 73

FM AMEMBASSY BERN

TO SECSTATE WASHDC 8491

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJ: SWISS EXCHANGE MARKET DEVELOPMENTS

1. SLIGHT WEAKENING OF DOLLAR AGAINST SWISS FRANCE (SF) FROM HIGH THIS WEEK OF 3.2130/3.2160 ON MONDAY DECEMBER 3 TO LOW AT CLOSE DECEMBER 6 OT 3.1720/3.1750 ATTRIBUTED PRIMARILY TO CONTINUING EXTREMELY TIGHT SWISS LIQUIDITY CONDITIONS. KEY COMMERCIAL BANK OFFICIALS AT ZURICH LUNCHEON DEC 6 WITH AMBASSADORS DAVIS AND GREENWALD WERE CLEARLY CONVINCED OF FUNDAMENTAL DOLLAR STRENGTH AND PREDICTED FURTHER RISE IF MARKET FORCES ALLOWED DETERMINE RATE.

2. SWISS NATIONAL BANK (SNB) HAS INFORMED BANKS OF AMOUNTS OF YEAR-END SWAP AND OTHER ASSISTANCE THEN CAN
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EXPECT AND BANKING COMMUNITY REACTION SEEMS TO BE THAT

LEVELS ARE INADEQUATE. HENCE, FORWARD DOLLARS OF 1, 2, AND 3 MONTH MATURITIES ARE QUOTED AT PREMIUM. RECENT SNB MONETARY/CREDIT MEASURES HAD RELATED IN PART TO FEARS OF POSSIBLE DEFEAT IN POPULAR REFERNDUM DECEMBER 2 OF GOVERNMENT'S DEC 1972 ANTI-INFLATION MEASURES. CLEAR-CUT APPROVAL OF ALL FOUR DECREES (BERN'S 4866--NOTAL) HAS, HOWEVER, ALLOWED SOME LOOSENING OF SNB REINS BUT, AS NOTED ABOVE, MONETARY/CREDIT RESTRAINT CONTINUES TO BE ORDER OF DAY.

3. GOLD AND FOREIGN EXCHANGE MARKETS HAVE RECENTLY BEEN SWEEPED WITH UNUSUAL RASH OF WILD AND OFTEN CONFLICTING RUMORS CAUSING AT TIMES HECTIC CONDITIONS. NEITHER EMBASSY NOR CONGEN ZURICH HAS HEARD RUMOR REPORTED ROME 13509 OF POSSIBLE BANK OF FRANCE FREE MARKET GOLD PURCHASES. SENIOR SNB OFFICIAL BASED IN BERN TOLD EMBOFF DEC 6 HE VERY MUCH DOUBTED TRUTH OF RUMOR SINCE, SO LONG AS DISPARATE INTERPRETATIONS EXIST RE CONTINUED APPLICABILITY OF IMF ARTICLE INV, SECTION 2, HE THOUGHT ANY SUCH CENTRAL BANK PURCHASES UNLIKELY PENDING EFFORT RECONCILE DIFFERENCES. RATHER, HE THOUGHT SALES WERE MORE PROBABLE.

4. MARKET SOURCES EXPLAIN RISE IN GOLD PRICE FROM ABOUT \$90 PLATEAU AFTER TERMINATION OF TWO-TIER GOLD AGREEMENT TO CURRENT \$105 LEVEL ON BASIS INCREASED DEMAND RELATED TO OIL SITUATION, REDUCTION IN SOUTH AFRICA SALES, AND RECOGNITION THAT FOR PRESENT TERMINATION 1968 AGREEMENT HAD NOT REALLY CHANGED MARKET SITUATION. PERCIVAL

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